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HART SCHAFFNER & MARX



Twenty-fourth Annual Report
November 30, 1934

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CORP. FILE

HART SCHAFFNER & MARX
CHICAGO NEW YORK

New York, January 28, 1935

To the Stockholders
of Hart Schaffner & Marx

On behalf of your Board of Directors there is submitted the financial statement of your company for the fiscal year ending November 30, 1934, together with the report of your auditors, Messrs. Price, Waterhouse & Company

The company shows an operating loss after all provisions of \$728,326.09. A net profit of \$60,067.07 derived from the operation of retail affiliates reduces the combined loss to \$668,259.02. This compares with a total loss for the fiscal year ending November 30, 1933 of \$2,238,667.08 which consisted of a combined operating loss of \$683,654.70 and a special provision in respect of capital assets of subsidiary companies of \$1,555,012.38

In its manufacturing operations during the year the company was subjected to substantially increased costs of labor and materials which could not be fully absorbed in the prices at which the company's clothing was sold to the trade. As a result, the company operated during the fall season with a very considerable reduction in gross margin, which prevented a profit in the current year. During the period, however, the company has gained a stronger competitive position and a wider acceptance of its product. It is expected that the resulting increase in business, already reflected in spring orders, will place the company in a much more favorable position

The company is in good financial condition. The balance sheet shows a ratio of current assets to current liabilities of over 12 to 1. All indebtedness for borrowed money had been repaid before the end of the fiscal year

Since the formation of the company in 1911, it has been the policy of the management to provide adequate reserves against inventories, receivables, investments, etc., based on careful estimates from year to year. The financial statements for the year just ended have been prepared in accordance with this policy, and these reserves, which are deducted from the respective assets, are believed to be conservative. In addition to these specific reserves, the company has since 1913 maintained a Reserve for Contingencies which has been increased from time to time and has been not less than \$1,500,000 since 1922, at which amount it appears in the accompanying balance sheet. This Reserve for Contingencies has been maintained as a precautionary measure and the amount of \$1,500,000 appearing in the balance sheet is carried forward intact on that basis with these comments as to the purpose and nature of the reserve.

There appears on the balance sheet of the company an item of "Good Will, Trade Names and Trade Marks" which has for many years been carried at \$10,000,000. At the incorporation of the company in 1911, this item was taken and carried at \$15,000,000. Some years afterwards it was written down by the Board of Directors to \$10,000,000. The holders of a majority of the stock of the corporation are of the opinion that it would be wise at this time to write down the good will, trade names and trade marks to the nominal amount of \$1.00, so that the company's balance sheet may better conform to present day corporate practice. In order that the original number of shares of common stock may be retained, the proposal has been made to reduce the par value of each share from \$100 to \$20. In doing this the working capital of the company will not be affected. A special meeting of stockholders has been called to vote on these changes.

MARK W. CRESAP

Chairman of the Board

BALANCE SHEET —

Assets

Current Assets

Cash	\$1,315,802.25	
Chicago and Cook County Tax Warrants	5,271.70	
Notes and Accounts Receivable (less reserves), including amounts due from subsidiary companies cov- ered by net quick assets	4,042,262.34	
Inventories of materials and finished and partly finished merchandise on hand and in transit, at cost or market, whichever is lower, for current season's merchandise and estimated realizable values for past seasons' merchandise	722,994.80	
Sundry accounts including \$18,265.98 due by employees	<u>54,833.23</u>	\$ 6,141,164.32

Advances in connection with pur- chase of Company's Capital Stock

Directors and officers	\$ None	
Employees (less reserve)	<u>33,275.88</u>	33,275.88

Investments in and non-current ad- vances to subsidiary companies, less reserve

554,813.99

Company's Capital Stock held in treasury

At par—2,981 shares	\$ 298,100.00	
At cost—2,824 shares	<u>31,788.39</u>	329,888.39

Shop Equipment and Fixtures, including Office Furniture Less—Depreciation reserve

\$1,163,703.84	
<u>913,719.49</u>	249,984.35

Deferred Charges:

Prepaid insurance, taxes, etc.	105,523.44
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Good Will, Trade Names and Trade Marks

<u>10,000,000.00</u>
<u><u>\$17,414,650.37</u></u>

NOVEMBER 30, 1934

Liabilities

Current Liabilities

Trade accounts payable		\$150,946.93	
Liability for goods in transit		42,403.58	
Accrued rents, pay rolls, etc.		205,683.38	
Accrued taxes	\$167,485.48		
Less—Amount deposited in escrow thereagainst	<u>74,675.21</u>	<u>92,810.27</u>	\$ 491,844.16

Capital Stock

Common—Authorized and issued 150,000 shares of \$100.00 each	15,000,000.00
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Reserve for contingencies	1,500,000.00
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Unappropriated Earned Surplus per accompanying statement	<u>422,806.21</u>
	<u><u>\$17,414,650.37</u></u>

STATEMENT OF PROFIT AND LOSS AND SURPLUS

FOR THE FISCAL YEAR ENDING NOVEMBER 30, 1934

Loss of parent company for the year,

After providing for manufacturing, marketing
and administrative expenses, depreciation
of equipment and doubtful accounts

\$ 728,326.09

Less—

Adjustment of investments in respect of
net operating profits of subsidiary compan-
ies for the year

60,067.07

Together

\$ 668,259.02

Surplus at November 30, 1933

1,091,065.23

Unappropriated Earned Surplus

At November 30, 1934

\$ 422,806.21

Report of Accountants

To the Stockholders of
Hart Schaffner & Marx

We have made an examination of the Balance Sheet of Hart Schaffner & Marx as at November 30, 1934, and of the Statement of Profit and Loss and Surplus for the fiscal year ending on that date. In connection therewith, we examined or tested accounting records of the Company and other supporting evidence, and made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions

We have been furnished with the financial statements of the Subsidiary Companies as of November 30, 1934, certified by the officers thereof, supported by particulars of inventories, certificates covering bank balances and detailed lists of receivables, and these statements and other supporting data were subjected to our review or verification. We also attended at the offices of a number of the principal Subsidiaries in order to make a general review for the purpose of substantiating the correctness of the information furnished to us

The accompanying Balance Sheet sets forth the Assets and Liabilities of the Parent Company. The investments in and non-current advances to Subsidiary Companies are stated as such in the Balance Sheet, after deducting therefrom reserves for losses of Subsidiary Companies of prior years adjusted in respect of their net operating profits for the year ending November 30, 1934. The portion of the advances to Subsidiary Companies which is represented by net quick assets is included in current assets

In our opinion, based upon such examination and review and upon explanations furnished to us, the accompanying Balance Sheet and related Statement of Profit and Loss and Surplus, read in conjunction with the Chairman's remarks to the stockholders regarding the Reserve for Contingencies, fairly present, in accordance with accepted principles of accounting consistently followed by the Company, its position at November 30, 1934, and the result of its operations for the year

PRICE, WATERHOUSE & CO.

Chicago, January 19, 1935

